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# MOVING WITH THE TWENTIETH CENTURY

By DR. CATHARINE DeMOTTE QUIRE, Ph. D., San Francisco Chapter, ASWA

"Accounting is Dynamic", the luncheon theme, would mean accounting does not stand still under our usual use of dynamic as an adjective connoting the quality of being active and energetic or subject to change, of moving. The Oxford Dictionary definition of dynamic is "of or pertaining to a force, of force in actual operation." Notice, please, it is the force rather than the resulting movement. We are not then talking about accounting as a theory and technique which must adapt itself to changing conditions. Rather we are talking about accounting as a force, one force, among many forces working changes in social, political and economic conditions which contribute to the order in which we live. Instead of saying that accounting is tagging behind the forces in actual operation, trying to keep them in sight and take the right turnings, we are saying that accounting is one of the front line forces and must accept a responsibility for helping to determine the final direction they will take. Accounting is moving with the twentieth century. At times it may need to move against some of the other forces in actual operation.

We need to remind ourselves also that we are members of a profession and that the definitions of profession include the ideas of dedication, special preparation, special responsibility. In relation to our technical skills we should feel a sense of dedication and accept a special responsibility in view of the part our profession plays as a force in actual operation among this whole series of forces which contribute to today's world.

These introductory remarks are made because this foundation seems of first importance. I am reminded of a tale used to illustrate how a work project could be stretched indefinitely in a dictator-controlled country. A building of twenty-five stories was the project, to be built on land outside the capital city, bordering the confluence of two rivers—marshy land in fact. Twenty stories were built successfully. By the time the twenty-first was finished the building had sunk one story. They started a new twenty-first story—and so on and on and on. Now, if accounting is to us only a way of stringing out a work project to cover a life-time of earning a living, we shall indeed have been building

on a marsh.

Before I left for Europe recently, I read a paper on Soviet accounting which a student at the Graduate School of Business Administration at the University of California had written. As soon as we reached Russia, I began asking the Intourist guide for an opportunity to talk to an accountant. Finally, I lowered my request to a chief bookkeeper. The guide could not understand my request, did not seem to know what an accountant was, could not see why one of our party wanted to talk to such a person. I never succeeded in getting the interview but by asking questions of managers of industrial and agricultural units, the implications of the graduate paper were confirmed:

1. There is a potential margin between cost and selling price, both elements having been fixed by government authority, which is named in Russia by a word translatable as profit.
2. This profit margin—as represented by asset increase—is an ear-marked fund.
3. Part of the fund may be used for improving the condition of the employees, housing projects, Palaces of Rest and Culture "built by the workers", etc.
4. The decision as to this use rests with management and the appropriate government office, not the union or the labor force itself.
5. Not even a well-educated and intelligent Intourist guide had the remotest idea that the accounting system had anything to do with determining this social force in actual operation.

Therefore, if each of us is to assume our share of responsibility for maintaining the freedom of decision which characterizes our system, if we want democracy as we meant it, part of the special responsibility of our profession involves weighing these implications imaginatively, watching for possible dangerous intrusions on the principles of full information and free decision in myriad small matters as well as in large, in elements of non-formal government as well as in the actions of our formal governmental officers.

The What to Read section of the July, 1956 *Journal of Accountancy*, carried a re-

view of Loyall McLaren's review of the ninth annual survey of *Accounting Trends and Techniques*. He is quoted as expressing disappointment at the slow rate of progress toward "a unified body of generally accepted principles of accounting—Mr. McLaren warns that if progress is too slow the alternative will be 'prescription of rigid financial reporting rules by governmental agencies.'" Is this bad? Or good? Why? Do you know how widely practice varies? The annual issue of *Trends* costs a good deal but would be worth its cost in a chapter library as a basis for technical sessions.

There are several points at which change is developing in accounting theories, techniques and skills where if I were a working accountant I should consider trying to get on the bandwagon ahead of the horde. You will recognize this as good technique for personal advancement. There is another advantage in line with what I have said before. If you are one of the pioneers in expert knowledge of a given field, you will be more effective in calling attention to the points at which caution is to be used, the points where there may be a conflict between our sort of system and the new techniques, between efficiency in handling of paper work and regimentation in the exercise of judgment by or about persons.

First and most obvious, the whole field of machine methods, new forms, that magic word, electronics and the other new wonder word, automation. As public accountants you need to be flexible in these matters, aware of uses and limitations. This is a place where becoming an expert could change the sort of audits you handle. I noted that in the report of the Commission on Standards of Education and Experience for CPA's, the longer experience qualification was justified on the ground that formal education and passing the examination did not give enough understanding and flexibility in dealing with a client's internal controls. With the changes in techniques resulting from increased use of machines, even the CPA needs more education. As an internal auditor you may direct management toward savings. In a lesser position you prepare yourself for advancement or at least for handling new equipment.

Second, in auditing, there has been a great advance in the use of statistical sampling techniques, still a new field. I don't know a better way to earn advancement than to become an expert in a new

field when experts are scarce and then to keep one jump ahead of all the experts that flock in after you. It takes energy and interest and brains but it provides stimulus, satisfaction, wide interests and some worry about your own income tax.

Third, the income tax field itself is also dynamic within the full meaning of the definition. I need only remind you that the income tax law in 1913 was probably the most effective force in actual operation in persuading business and even accountants to use a charge for depreciation expense when they still did not really understand why it was wise or necessary. Recent changes have brought depreciation to the front again and accountants are again questioning whether the method most desirable for a given year's tax return is best in the long run. You need to know—not THE answer, because there are probably several, but the pertinent discussion points.

There are other federal and state income tax complications, some of which involve no more than learning how to rearrange the figures. Some of them involve elements of social theory. Last year the San Francisco chapter of ASWA heard Mary Lanigar call attention to the use of exemptions to provide relief in certain cases but not for all similar cases. She was referring to the exemption for the blind, but not for the deaf or for those who were physically handicapped in other ways. This came to my mind when I read the statement of Arthur Larson in his book *A Republican Looks at His Party*, that the tax measure presented to the 83rd Congress, "for the first time in history, was designed to rationalize the entire income tax statute from beginning to end, eliminating unfairness, plugging loopholes, and adjusting relationships between the parts." Even as a Republican I am not prepared to argue this point except by following Larson's argument. But some of you should be, I believe, and on a non-partisan basis. Some of you have seen the effect of the income tax law on enough business and individual tax returns so that you can weigh the special exemption for the blind against the probable effect on earning as between blindness and deafness or the probable need for continual medical care as between blindness and the loss of an arm. In this evidence of a special lobby? Is it the kind of special treatment that should be spread farther? Is this the best way to provide relief for this handicap?

I want to call to your attention a fourth field in which you should check your present standards of performance and probably should educate yourself further—the field of report writing. This applies to both the private and the public accountant. One good way of being on the inside track in your office is having your superior aware that you can whip up a good written report at the drop of a hat. I hope you know about Jennie Palen's book. I hope some of you have read Mr. Maurice Peloubet's article in the July 1956 *Journal*.

My fifth point is concerned with the developing awareness of the responsibility of the accountant to management. The various ways in which this awareness is being met in formal accounting education are spreading in so many directions that those who follow one line are likely to meet themselves coming back along the road. I am talking now to accountants and I hope you will agree with me that business will be served best if accountants become experts in providing the figures needed to project the effects of business change. The alternative is to have management and industrial engineers learn enough accounting so they think they can make their own budgets and projections, rather than have accountants on the one hand and management and engineers on the other meet on the basis of a common language, each providing specialized tools.

Accounting is making an advance in the common language department. The words we use in statements have become more intelligible. Are we using the figures with full responsibility? Are we relying too heavily on that neat phrase "in conformity with generally accepted accounting principles," failing to be imaginative about necessary information beyond the limitations of those principles? Let me make myself clear on this point. I am a die-hard, in theory and in practice on the use of historical cost in published statements or at least on using historical cost in the primary statements. I think, however, that the accountant exercising his responsibility as a guide of a force in actual operation, should be prepared to decide when management needs to be reminded of the effect of price changes on present operating results and future policy. This responsibility applies to private as well as public accountants, just as it applies to housewives and insurance brokers. All of us do some of it in our heads all the time. The public accountant is in a special position because he sees what is hap-

pening to many businesses. The private accountant sees the transactions and changes in one business in detail.

Theoretically the big swings of the cycle are controllable. Theoretically an inflation spiral is controllable. Practically these two dangers seem to be under reasonable control without the need of specially planned changes in the rate of government spending. Theoretically an expanding economy, a reasonable balance of full employment, more purchasing power, more leisure, more consumer goods without higher prices can be achieved. We can achieve it under our system of private enterprise with only a minimum of government interference, I believe, if accountants join with management in watching for danger spots. We do not want to achieve it, I am sure, under government control. I am firmly convinced, in fact, that the extension of government control even with our tradition of individual initiative is a good way to destroy that initiative which is the basic force of our expansion. I saw nothing that seemed admirable to me in what I saw of the Russian economy, except that it had made literacy and education, hospital care and access to art, music and other cultural activities more available. There seems to be no expansion of the standard of living and opportunity for the use of initiative is subject to unreasonable limitation from above, except perhaps in cultural expression and, to a limited extent, in agriculture.

This, then, initiative and the chance to use it, is the jewel without price in our economy. Every interference by government must be justified on the grounds of protection of the public—not on the grounds of efficiency. Every time the attempt to exercise initiative fails because the attempt is ill-conceived, one more black mark is made by those who lack courage. Business initiative should depend on you for expert information. If you are to give that information well, expertly, you must be knowledgeable on many matters so that you are foreseeing and presenting alternatives. You must have a full and detailed awareness of what the business economy of a democracy means, what are its limitations and its relation to government, politics and social theory.

You must, each of you, reach an inner integrity on these matters so that you will have the courage to use your accounting knowledge as a "force in actual operation" in the direction you believe our business economy should take.